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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

In the Matter of )

Proposed Revision of Section )  
69.605 of the Commission's Rules )  
to Allow Small Cost Settlement )  
Companies to Elect Average )  
Schedule Settlement Status )

RM-8357

REPLY COMMENTS OF THE  
NATIONAL TELEPHONE COOPERATIVE ASSOCIATION

The National Telephone Cooperative Association ("NTCA") submits these Reply Comments in response to the comments filed on November 1, 1993, in the proceeding captioned above. This proceeding concerns the Petition For Rulemaking filed by the National Exchange Carrier Association ("NECA") on September 13, 1993. NECA is asking the Commission to extend average schedule eligibility to permit small local exchange carriers ("LECs") to elect average schedule status, subject to constraining conditions, effective July 1, 1994. NTCA is a national association of approximately 500 small LECs providing telecommunications services to subscribers and IXCs throughout rural America.

The entire LEC industry supports NECA's request, and the comments reflect this support and echo the net benefits that adoption of the average schedule option will allow. The vast majority agree that average schedules result in administrative savings for the small LECs who use this form of cost settlement. The comments also support the conclusion that Average Schedules can lead to efficiency incentives.

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MCI is the only commenting party that objects to the proposal. MCI's opposition is without merit. First, MCI characterizes NECA's proposal incorrectly when it describes the average schedule status option as an "open enrollment" plan.<sup>1</sup> NECA has proposed time constraints on eligible LECs to restrict settlement status changes. This provision should more than guard against material "gaming of the system" or settlement "churn" and addresses any potential negative effects on pooling operations. The other pool members are equally concerned as MCI about settlement option churn and would not be receptive to a plan that would introduce shifting rates and risky earnings expectations. The proposed four year commitment period is far longer than what would be necessary to guard against these negative effects.<sup>2</sup>

Next, MCI confuses the impact of average schedules on NECA tariff rates: "Though average schedule companies are but a subset of the NECA pools, it is likely that not requiring these companies to file rates based on costs contributes to the higher rates the Commission has observed."<sup>3</sup> MCI arrives at this false impression partly because it has observed that Section 61.39 carriers generally have rates that are lower than NECA rates.<sup>4</sup>

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<sup>1</sup> MCI at 3-6.

<sup>2</sup> It is highly speculative to expect that in the dynamically changing telecommunications industry a telco could be capable of perfectly planning events over successive four year periods to successfully and substantially "game" the system.

<sup>3</sup> MCI at 4.

<sup>4</sup> Id.

First, contrary to MCI's belief, the average schedule development process is designed to lead to average schedule settlement formulas that in the aggregate simulate the same total cost determination answer for these LECs as would cost studies. That is, rates would in the aggregate be the same (except for the savings for not having to prepare cost studies) if average schedule companies actually completed cost studies and NECA rates were based on the results.

Second, MCI's reliance on the Section 61.39 observation is misleading because the LECs that are motivated to avail themselves of the Section 61.39 rules also tend already to have lower average costs. In other words, there is a distinct bias for those companies that serve lower than average cost areas to exit the NECA pools and file their own rates. MCI's comment merely observes the obvious and is irrelevant to this proceeding.

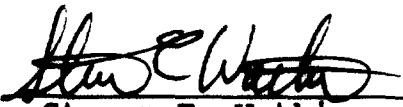
MCI also introduces misconceptual doubt about the choice of an access line threshold for which LECs would qualify for NECA's proposed option. MCI imputes a critical significance to the 5,000 access line level that does not and has never existed. The limits in earlier proposals have been chosen and set based on the expectations of the degree of disruption to the schedules and NECA pooling and NECA's desire not to disrupt these operations exceedingly. The actual circumstances for these concerns can change over time, the identity of the LECs that may want to convert to average schedules can change, and the impact on the NECA pooling process as a result of status changes can move up or

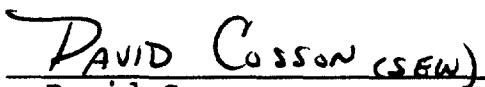
down. NECA's balanced approach to these concerns led to the 10,000 access line choice. In NTCA's judgement, the limit could be 20,000 access lines without undue disruption.

The comments of MCI are misleading in some respects and irrelevant in others and should be discounted accordingly. For the reasons presented in NTCA's earlier comments and reinforced by the valid comments of others, the Commission should adopt the necessary changes to allow the proposed option outlined by NECA in its petition.

Respectfully submitted,

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November 16, 1993

CERTIFICATE OF SERVICE

I, Rita H. Bolden, certify that a copy of the foregoing Reply Comments of the National Telephone Cooperative Association in RM-8357 was served on this 16th day of November 1993, by first-class, U.S. Mail, postage prepaid, to the following persons on the attached list:

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